

**REPORT ON EXAMINATION**  
**OF**  
**AEQUICAP INSURANCE COMPANY, INC.**  
**FORT LAUDERDALE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2005**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	-
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
FINANCIAL .....	2
GENERAL .....	3
<b>HISTORY</b> .....	<b>3</b>
GENERAL .....	3
CAPITAL STOCK .....	4
PROFITABILITY OF COMPANY .....	4
DIVIDENDS TO STOCKHOLDERS .....	5
MANAGEMENT .....	5
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS .....	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	7
SURPLUS DEBENTURES .....	7
<b>AFFILIATED COMPANIES</b> .....	<b>7</b>
TAX ALLOCATION AGREEMENT .....	8
COST SHARING AGREEMENT.....	8
CLAIMS ADMINISTRATOR AGREEMENT .....	8
GENERAL AGENCY AGREEMENT.....	9
<b>ORGANIZATIONAL CHART</b> .....	<b>10</b>
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>11</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>11</b>
<b>STATUTORY DEPOSITS</b> .....	<b>11</b>
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	<b>12</b>
TERRITORY .....	12
TREATMENT OF POLICYHOLDERS.....	12
<b>REINSURANCE</b> .....	<b>12</b>
ASSUMED.....	12
CEDED .....	13
<b>ACCOUNTS AND RECORDS</b> .....	<b>14</b>
CUSTODIAL AGREEMENT .....	15
OUTSOURCING SERVICES AGREEMENT .....	15
INVESTMENT MANAGEMENT AGREEMENT.....	15
INDEPENDENT AUDITOR AGREEMENT.....	15
RISK-BASED CAPITAL.....	15

INFORMATION TECHNOLOGY (IT) REPORT .....	16
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>17</b>
ASSETS .....	18
LIABILITIES, SURPLUS AND OTHER FUNDS .....	19
STATEMENT OF INCOME.....	20
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>21</b>
LIABILITIES .....	21
CAPITAL AND SURPLUS .....	21
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>22</b>
<b>SUMMARY OF FINDINGS .....</b>	<b>23</b>
<b>CONCLUSION .....</b>	<b>25</b>

Tallahassee, Florida

March 14, 2007

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**AQUICAP INSURANCE COMPANY, INC.**  
**3000 West Cypress Creek Road**  
**Fort Lauderdale, Florida 33309**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced, with planning at the Office, on April 17, 2006, to April 21, 2006. The fieldwork commenced on July 31, 2006, and was concluded as of October 6, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the integrity of the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2005. Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements for all accounts.

### **Status of Adverse Findings from Prior Examination**

The following was a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2002, along with the resulting action taken by the Company.

#### **Financial**

The Company's reinsurance recoverables had not been properly reconciled and offset against an applicable reinsurance payable.

**Resolution:** The Company was properly reconciling and offsetting reinsurance recoverables at year end to ensure correct reporting.

## **General**

The Company had not written insurance coverage in the Homeowners line of business for the calendar year.

**Resolution:** The Company removed the Homeowners line of business insurance from its Certificate of Authority.

The Company's custodial agreement with SunTrust Bank did not include many of the provisions required by Rule 69O-143.042, Florida Administrative Code.

**Resolution:** The Company changed custodians to Wachovia Bank. The agreement in place complied with the provisions required by Rule 69O-143.042, Florida Administrative Code.

The Company did not have current conflict of interest statements.

**Resolution:** The Company complied with Rule 69O-138.001(1), Florida Administrative Code and updated the conflict of interest statements on a yearly basis.

## **HISTORY**

### **General**

The Company was incorporated in Florida on November 13, 1985 and commenced business on December 6, 1985 as Transportation Casualty Insurance Company. In 2005, the Company changed its name to Aequicap Insurance Company, Inc. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Workers Compensation  
Commercial Automobile Liability  
Surety

The articles of incorporation and the bylaws were amended during the period covered by this examination to change the Company's name from Transportation Casualty Insurance Company to Aequicap Insurance Company, Inc.

### **Capital Stock**

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	23,500
Total common capital stock	\$2,350,000
Par value per share	\$100

Control of the Company was maintained by its parent, Aequicap Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Aequicap, Inc.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Premiums Earned	36,681,699	29,677,358	24,067,315
Net Underwriting Gain/(Loss)	(97,569)	(4,917,705)	(703,753)
Net Income	845,612	(766,622)	(205,519)
Total Assets	92,757,063	85,483,326	78,614,359
Total Liabilities	62,724,561	57,269,819	56,170,068
Surplus As Regards Policyholders	30,032,502	28,213,507	20,444,274

### **Dividends to Stockholders**

The Company paid a dividend to its stockholders in 2004 in the amount of \$900,000. No dividend was paid in 2003 or 2005.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

#### **Directors**

##### **Name and Location**

Phillip Morgaman  
Boca Raton, Florida

Mark Stephenson  
Fort Lauderdale, Florida

William Spruce  
Coral Springs, Florida

Deborah Gardner  
Fort Lauderdale, Florida

##### **Principal Occupation**

Chairman and CEO  
Aequicap insurance Company, Inc.

President and COO  
Aequicap Insurance Company, Inc.

Senior Vice President  
Aequicap Insurance Company, Inc.

Treasurer/CFO  
Aequicap Insurance Company, Inc.

Neal Nichols  
Aldie, Virginia

President/Outside Director  
Transportation General, Inc

Charles King  
Falls Church, Virginia

Ground Transport Executive/Outside Director  
Transportation General, Inc

Justin Morgaman  
Boca Raton, Florida

Outside Director  
Aequicap Insurance Company, Inc.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Mark Stephenson	President
Deborah Gardener	Treasurer
Matthew Jones	Secretary
Ira Nassi	CFO
Joseph Matteis	Senior VP
Chris Parkinson	Senior VP

The Board of Directors appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

#### **Executive Committee**

Phillip Morgaman<sup>1</sup>  
Mark Stephenson

#### **Audit Committee**

William Spruce<sup>1</sup>  
Neal Nichols  
Charles King

#### **Investment Committee**

Phillip Morgaman<sup>1</sup>  
Mark Stephenson  
Deborah Gardner

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under examination.

### **Surplus Debentures**

The Company had no surplus debentures at December 31, 2005.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on February 28, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. At year end, December 31, 2005, the agreed upon method of allocation between the Company and its parent was that the Company's tax liability was allocated on the basis of the percentage of the total tax as if computed on a separate return basis.

### **Cost Sharing Agreement**

The Company had a cost sharing agreement with Aequicap Program Administrators, Inc. (APA), an affiliate, at December 31, 2005. The cost sharing charges were allocated monthly and billed and collected within the following quarter. The allocation of the cost sharing charges were determined by the management of APA and agreed to by management of the Company and its affiliated companies.

### **Claims Administrator Agreement**

The Company had a claims administrator agreement with Aequicap Claims Services Inc. (ACS), an affiliate, at December 31 2005. The agreement stipulated that ACS will evaluate, handle, adjust, approve or deny claims reported to the Company.

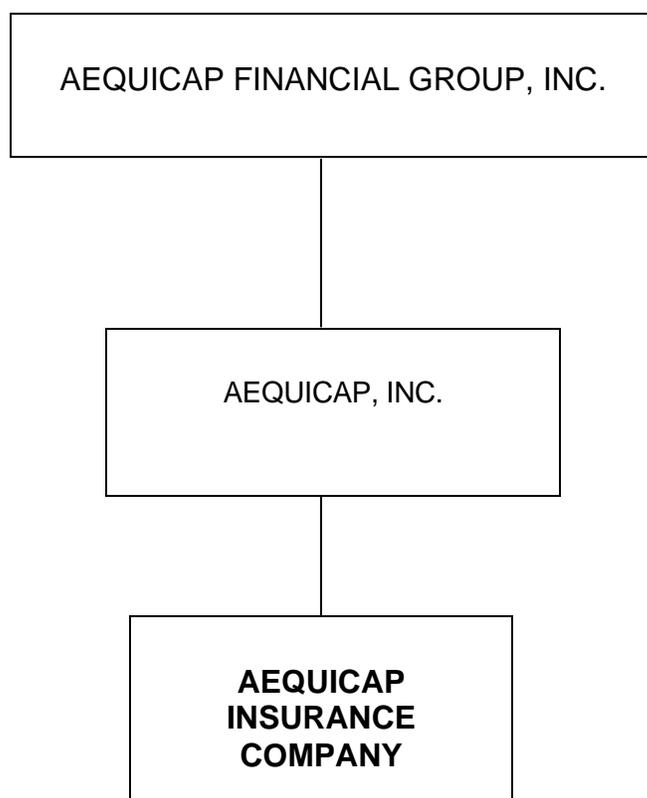
## **General Agency Agreement**

The Company had a general agency agreement with Aequicap Program Administrators Inc. (APA), an affiliate, at December 31, 2005. The agreement granted APA authority to write insurance on behalf of the Company and perform other necessary functions to service the business.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**AEQUICAP INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2005**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also maintained fire, flood, property and general liability insurance coverages to protect Company assets.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a 401K plan and a full health insurance benefit package to all eligible employees.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

	<u>STATE</u>	<u>DESCRIPTION</u>	<u>RATE</u>	<u>MATURITY DATE</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL		CASH	-	-	\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS					\$ 300,000	\$ 300,000
GA		MUTUAL FUND	-	12/31/06	\$ 85,615	\$ 85,615
OK		USTB	2.5%	01/12/06	300,000	300,000
SC		USTB	3.3%	06/01/06	130,000	130,000
TOTAL OTHER DEPOSITS					\$ 515,615	\$ 515,615
TOTAL SPECIAL DEPOSITS					\$ 815,615	\$ 815,615

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance in the States of Florida, Georgia, Oklahoma and South Carolina.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.954(1)(i)3,a, Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company assumed business of \$2,116,306 at December 31, 2005. The Company entered into agreements and issued letters of credit which served as collateral for assumed business. Total pledged assets as collateral under such agreements amounted to approximately \$1,854,000.

## **Ceded**

The Company ceded risk on a quota share and excess of loss basis. With respect to its Workers' Compensation business, the Company maintained excess of loss reinsurance in three layers above \$300,000 each occurrence up to \$20,000,000 each occurrence. The first layer afforded limits of \$700,000 in excess of \$300,000 each occurrence and was placed 100% with GMAC Re Corporation (GMAC Re) for and on behalf of Motors Insurance Corporation. The second layer afforded limits of \$9,000,000 each occurrence in excess of \$1,000,000 each occurrence and was placed 100% with Midwest Employers Casualty Company. The third layer afforded limits of \$10,000,000 each occurrence in excess of \$10,000,000 each occurrence and was placed 100% with International Livery and Coachman's Indemnity Company. In addition to its excess of loss protection, the Company maintained a 65% quota share agreement covering all claims up to \$300,000. This cover was placed 100% with GMAC Re.

Effective December 1, 2005, the Company entered into a quota share treaty agreement with GMAC Re, for and on behalf of Motors Insurance Corporation, which provided coverage for 40% of all commercial auto claims up to \$300,000 for new and renewal business and 50% of all commercial auto claims up to \$300,000 for in force business. The Company also had a quota share treaty agreement with Employers Reinsurance Corporation, which provided coverage for 10% of all commercial auto claims up to \$300,000 for new and renewal business written at and after December 1, 2005.

In addition to its quota share protection on commercial auto business, the Company also maintained excess of loss covers with GMAC Re (80%) and Employers Reinsurance Corporation (20%), which together afforded limits of \$700,000 each occurrence in excess of \$300,000 each occurrence.

Effective October 10, 2005, the Company entered into a reinsurance trust agreement with GMAC Re with respect to its Workers' Compensation treaties. Accordingly, the balances under these contracts have been fully collateralized. In addition, as a condition of its participation at December 1, 2005 on the Company's commercial auto quota share and excess of loss programs, GMAC Re agreed to extend the reinsurance trust agreement to include these contracts.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Fort Lauderdale, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Wachovia Bank dated September 24, 2004. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

### **Outsourcing Services Agreement**

The Company entered into an outsourcing services agreement with Sungard Insurance Systems, Inc. (SIS), on October 21, 2004. The agreement stipulated that SIS provide security investment accounting services for the Company. This included processing, record keeping and period reporting of the Company's stocks, bonds and short term investments.

### **Investment Management Agreement**

The Company entered into an investment management agreement with Evergreen Investment Management Company (Evergreen). The agreement authorized Evergreen to supervise, invest and direct the Company's portfolio in accordance with the Company's financial objectives.

### **Independent Auditor Agreement**

The Company had an agreement with Spear Safer CPA's & Advisors to perform an audit of its GAAP and Statutory financial statements for the years 2003, 2004 and 2005.

### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## Information Technology (IT) Report

Highland Clark, LLC performed a computer systems evaluation on the Company. Results of the evaluation were noted in the IT report provided to the Company. A summary of significant findings was as follows:

1. An inspection of application security permissions for the Concept One Insurance System and Freedom Financial System noted that one individual in the finance area had administrative rights to both applications. This person was actively involved in the financial reporting process and assisted the claims and underwriting departments in resolving issues. This employee's authority to create policies, claims, check disbursements and general ledger entries compromised the value of internal controls over financial reporting. The authority also may subject the employee to liability for fraudulent activities.

**Subsequent Event:** In order to address the IT control weakness mentioned above, the Company revoked the employee's administrative rights for the Concept One Insurance System and Freedom Financial System softwares. The employee only had rights for inquiry access and data extraction capabilities.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**AEQUICAP INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2005**

	Per Company	<b>Examination Adjustments</b>	Per Examination
Bonds	\$ 33,400,866		\$ 33,400,866
Stocks:			
Common	600,265		600,265
Real Estate:			
Properties			
occupied by Company	5,280,206		5,280,206
Cash and Short-term Investments	21,142,490		21,142,490
Other invested assets	734,000		734,000
Investment income due and accrued	385,037		385,037
Agents' Balances:			
Uncollected premium	9,465,974		9,465,974
Deferred premium	12,591,564		12,591,564
Reinsurance Recoverable	1,455,761		1,455,761
Net deferred tax asset	2,234,385		2,234,385
EDP Equipment	461,466		461,466
Receivable from Parents, Subsidiaries and Affiliates	4,872,428		4,872,428
Aggregate write-in for other than invested assets	132,621		132,621
Totals	\$ 92,757,063	\$ -	\$ 92,757,063

**AEQUICAP INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Losses	\$25,370,739	\$18,000,000	\$43,370,739
Reinsurance payable on paid losses and lae	1,746,885		1,746,885
Loss adjustment expenses	5,361,056		5,361,056
Other expenses	356,831		356,831
Taxes, licenses and fees	464,083		464,083
Current federal and foreign income taxes	1,003,960		1,003,960
Unearned premium	13,972,645		13,972,645
Ceded reinsurance premiums payable	11,713,546		11,713,546
Funds held under reinsurance treaties	362,511		362,511
Amounts withheld	2,189,885		2,189,885
Provision for reinsurance	5,770		5,770
Aggregate write-ins for liabilities	176,650		176,650
<b>Total Liabilities</b>	<b>\$62,724,561</b>	<b>\$18,000,000</b>	<b>\$80,724,561</b>
Common capital stock	\$2,350,000		\$2,350,000
Gross paid in and contributed surplus	23,739,000		23,739,000
Unassigned funds (surplus)	3,943,502	\$18,000,000	(14,056,498)
Surplus as regards policyholders	\$30,032,502	\$18,000,000	\$12,032,502
<b>Total liabilities, capital and surplus</b>	<b>\$92,757,063</b>	<b>\$0</b>	<b>\$92,757,063</b>

**AEQUICAP INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2005**

<b>Underwriting Income</b>	
Premiums earned	\$36,681,699
DEDUCTIONS:	
Losses incurred	22,171,590
Loss expenses incurred	10,325,181
Other underwriting expenses incurred	4,326,593
Aggregate write-ins for underwriting deductions	(44,097)
Total underwriting deductions	<u>\$36,779,267</u>
Net underwriting gain or (loss)	(\$97,568)
<b>Investment Income</b>	
Net investment income earned	\$2,107,642
Net realized capital gains or (losses)	(11,789)
Net investment gain or (loss)	<u>\$2,095,853</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	(\$2,501,755)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	155
Total other income	<u>(\$2,501,600)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,998,438
Dividends to policyholders	(19,617)
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$2,018,055
Federal & foreign income taxes	<u>1,172,443</u>
Net Income	\$845,612
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$28,213,510
<b>Gains and (Losses) in Surplus</b>	
Net Income	\$845,612
Net unrealized capital gains or losses	50,400
Change in net deferred income tax	254,689
Change in non-admitted assets	(38,630)
Change in provision for reinsurance	706,923
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(18,000,000)
Change in surplus as regards policyholders for the year	<u>(\$16,181,006)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$12,032,504</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$48,731,795

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was not in concurrence with this opinion. Therefore, an adjustment to increase Loss and Loss Adjustment Expenses by \$18,000,000 was made by this examination.

### CAPITAL AND SURPLUS

Although there was a significant adjustment made to surplus, the Company met surplus requirements.

**AEQUICAP INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2005**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2005, Annual Statement	\$	30,032,502
---	----	------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No Adjustment			
<b>LIABILITIES:</b>			
Loss and Loss adjustment expense reserves	\$ 30,731,795	\$ 48,731,795	\$ (18,000,000)
Net Change in Surplus:			<u>(18,000,000)</u>
Surplus as Regards Policyholders December 31, 2005, Per Examination			<u>\$ 12,032,502</u>

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

### **Current examination comments and corrective action**

The following was a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

### **Loss and Loss adjustment expense reserves**

As noted earlier, the Office actuary was not in concurrence with the opinion rendered by the outside actuarial firm appointed by the Company's Board of Directors. The Office therefore approved the engagement of a national actuarial firm, Pinnacle Actuarial Resources, Inc. as an independent third actuary to review the Company's reserves as of December 31, 2005. Pinnacle reported a deficiency that ranged from \$18.4 million to \$32.3 million. The Company was not in compliance with Sections 625.041(1) and 625.101, Florida Statutes. The Office and the Company agreed to a corrective action plan that would have the Company increase its reserves by \$18 million as of December 31, 2005 and engage Pinnacle to complete a full actuarial review of the Company's reserves as of December 31, 2006. The Company has further agreed to set its reserves in accordance with the reserve determination of Pinnacle in the December 31, 2006 review.

## SUBSEQUENT EVENTS

Subsequent to the examination period but prior to the conclusion of the examination itself the Company took the following corrective measures which address the reserve issues raised in this Examination Report:

1. The Company engaged with the approval of the Office, Pinnacle, a national actuarial firm, to conduct an independent review of the Company's reserves in those categories where the Company, its consulting actuaries (Perr & Knight) and the Office staff actuary could not agree.
2. Based upon the report of the independent actuary, the Company, with the agreement of the Office, strengthened its reserves by \$18,000,000.
3. The Shareholders of the Company made additional contributions to surplus of \$8,000,000
4. The Company, in agreement with the Office, engaged Pinnacle to conduct an independent actuarial review of the Company's 2006 reserves for the Office.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Aequicap Insurance Company, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$12,032,502, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor and Joseph Boor, FCAS, Office Actuary, participated in the examination. We also recognize Highland Clark, LLC participation in the examination.

Respectfully submitted,

---

Owen A. Anderson  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation